



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

October 29, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the City of Conesville, Iowa, for the period July 1, 2018 through June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand reported twenty-three findings related to the receipt and disbursement of taxpayer funds. They are found on pages 7 through 11 of this report. The findings address issues such as a lack of segregation of duties, the lack of monthly bank and utility reconciliations, disbursements exceeding budgeted amounts, dual compensation of city officials in violation of Chapter 372.13(8) of the Code of Iowa and a deficit fund balance in the Enterprise, Sewer Fund.

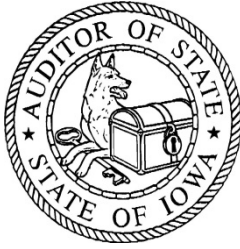
The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports>.

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CITY OF CONESVILLE
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2018 THROUGH JUNE 30, 2019

City of Conesville



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Rob Sand
Auditor of State

September 23, 2019

Officials of the City of Conesville
Conesville, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Conesville, Iowa, for the year ended June 30, 2019. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Conesville throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

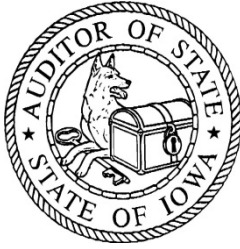
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City of Conesville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Skip Kirk	Mayor	Jan 2018	Jan 2020
Kallie Gartzke	Council Member	Dec 2018	Nov 2019
Sylvia Solis	Council Member	Jul 2019	Nov 2019
Herb Gartzke	Council Member	Jan 2016	Jan 2020
Saul Ponce, Jr.	Council Member	Jan 2018	Jan 2022
Edgar Villagrana	Council Member	Jan 2018	Jan 2022
Bob Probst	City Clerk		Indefinite
Sasha Monthei	Attorney		Indefinite



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Conesville for the period July 1, 2018 through June 30, 2019, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Conesville's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2018 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. The City has no investments.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.

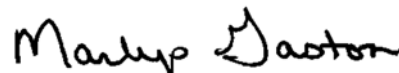
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. The City has no TIF.
11. We traced selected receipts to accurate accounting and consistency with the recommended COA.
12. The City has no voter approved levies.
13. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We traced transfers between funds to proper authorization and accurate accounting and determined whether transfers were proper.
15. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.
16. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Conesville during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Marlys K. Gaston, CPA
Deputy Auditor of State

September 23, 2019

Detailed Findings and Recommendations

City of Conesville

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (3) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
- (4) Debt – recordkeeping and debt payment processing.
- (5) Payroll – recordkeeping, preparing, distributing and entering rates into the system.
- (6) Utilities – billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable records.
- (7) Financial reporting – preparing and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The cash balances in the City's general ledger were not reconciled to bank account balances throughout the year. For June 30, 2019, the book balance exceeded the reconciled bank balance by \$50. Additionally, interest earned on the sewer savings account of \$45 was not recorded in the general ledger.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. The bank reconciliations should be reviewed by an independent person and the review should be documented by signature or initials of the reviewer and the date of the review. Variances, if any, should be investigated and resolved timely. Also, interest earned on all accounts should be properly recorded.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

City of Conesville

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (D) Monthly City Clerk's Report – A monthly City Clerk's report, including a summary of receipts, disbursements, transfers and beginning and ending balances by fund, is not prepared and provided to the City Council. In addition, the City Council does not receive a comparison of actual disbursements to the certified budget by function.

Recommendation – The City Clerk should prepare a monthly City Clerk's report which includes a summary of receipts, disbursements, transfers and balances by fund. In addition, to provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the monthly City Clerk's reports should include comparison to the certified budget by function. The City Council should review and approve the City Clerk's report monthly.

- (E) City Council Meeting Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes publications for City Council proceedings include total disbursements for each fund, a list of claims allowed, the reason for the claims and a summary of all receipts. The minutes publications for two of four meetings tested did not include total disbursements for each fund and one of the four meetings tested did not include a summary of receipts. In addition, all minutes tested did not include a list of all claims allowed. Also, Chapter 380.7 of the Code of Iowa requires minutes of all City Council meetings be properly signed. Minutes for all meetings tested were not signed.

Recommendation – The City should comply with the Code of Iowa and include total disbursements by fund, a summary of receipts, and a list of all claims allowed, including the reason for the claim, in the published minutes. In addition, minutes of the City Council meetings should be signed to authenticate the actions taken, as required.

- (F) Certified Budget – Disbursements during the year ended June 30, 2019 exceeded the amounts budgeted in the general government and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (G) Credit Cards – The City has a Menards credit card for use by employees while on City business. The City has not adopted a formal policy to regulate the use of the credit card and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of the City's credit card. The policy, at a minimum, should address who controls the credit card, who is authorized to use the credit card and for what purposes, as well as the types of supporting documentation required to substantiate charges.

City of Conesville

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (H) Payroll – Timesheets are not required for all City employees. Also, timesheets are not reviewed and approved by supervisory personnel prior to preparation of payroll.

Recommendation – Timesheets should be prepared for all employees and procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review and approval should be documented by the supervisor's initials and the date approved.

- (I) Petty Cash – The petty cash fund was not maintained at the authorized amount.

Recommendation – The petty cash fund should be maintained at the amount authorized by the City Council.

- (J) Annual Financial Report – Disbursements in the 2018 Annual Financial Report (AFR) were overstated by \$784 in the public safety function when compared to the general ledger. In addition, \$3,022 was incorrectly coded to road use tax receipts rather than local option sales tax receipts. Also, total receipts were understated by \$3,605 and disbursements were overstated by \$9,053 when compared to the general ledger.

Recommendation – The City should establish procedures to ensure the AFR is accurate and agrees to the general ledger.

- (K) Financial Condition – At June 30, 2019, the Enterprise, Sewer Fund had a deficit balance of \$52,519.

Recommendation – The City should investigate alternatives to eliminate this deficit balance in order to return the fund to a sound financial position.

- (L) Transfers – Transfers were not approved by the City Council.

Recommendation – The City should ensure all transfers between funds are approved by resolution of the City Council.

- (M) Utility Rates – The City has not adopted an ordinance setting the monthly garbage rates. Chapter 384.84 of the Code of Iowa requires utility rates to be established by city ordinance.

Recommendation – The City should adopt an ordinance setting garbage rates and establish procedures to ensure charged utility rates agree to the ordinance, including ensuring utility rates entered into the computer billing system are periodically reviewed by an independent person.

- (N) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should obtain surety bond coverage in compliance with Chapter 64 of the Code of Iowa and periodically review the coverage for adequacy.

City of Conesville

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (O) Dual Compensation – Chapter 372.13(8) of the Code of Iowa states, in part, “Except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer’s tenure in office but may be reimbursed for actual expenses incurred.”

During the year ended June 30, 2019, the Mayor and a City Council member were compensated \$11,350 and \$6,000, respectively, for mowing around the lagoon and filing monthly reports for the sewer system. This compensation violates Chapter 372.13(8) of the Code of Iowa which prohibits elected city officials from receiving compensation as a city employee.

A recent Attorney General’s opinion dated August 15, 2018, clarified Chapters 372.13(8) and 362.5 of the Code of Iowa and states, in part, “Iowa Code §372.13(8) (2018) bars city elected officers from receiving additional compensation for positions of employment beyond the salary received for their elected office. Iowa Code §362.5(3) (2018), providing exceptions to the general ban in that statute for city offices and employees having interests in contracts with the city do not allow city elected officers to receive additional compensation for positions of employment with their city beyond the salary provided for their elected office. That portion of prior formal opinion, Op. Atty. Gen. #93-8-2(L), finding that a city elected officer may serve as an employee of their city for additional pay if the compensation does not exceed annual cumulative amounts set under Iowa Code §362.5(3)(j)&(k) (2018), is retracted.

Recommendation – The City should seek reimbursement for the \$11,350 and \$6,000 improperly paid to these officials.

- (P) Disbursements – For one of thirty disbursements tested, the City improperly paid sales tax.

Recommendation – The City should establish procedures to ensure sales tax is not paid on purchases.

- (Q) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (R) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

City of Conesville

Detailed Findings and Recommendations

For the period July 1, 2018 through June 30, 2019

- (S) Payment of General Obligation Notes – Principal and interest on certain general obligation notes was paid from the Enterprise, Sewer Fund. Chapter 384.4 of the Code of Iowa states, in part, “Money’s pledged or available to service general obligation bonds, and received from sources other than property taxes, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Enterprise, Sewer Fund to the Debt Service Fund for future general obligation notes funding contributions. Payments on the general obligation notes should be made from the Debt Service Fund, as required.

- (T) Prenumbered Receipts – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued for all collections at the time of the collection to provide additional control over the recording of all money received. These receipts should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (U) Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (V) Computer System – The following weakness in the City’s computer system were noted:

- (1) The City does not have a timeout or lockout function or screen saver passwords to protect computer terminals when not in use.
- (2) Password privacy and confidentiality policy.
- (3) Personal and internet usage policy.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over its computer system. Also, a written disaster recovery plan should be developed and tested periodically.

- (W) Financial Reporting – Special assessments for utility fees totaling \$8,532 and Debt Service Fund property taxes totaling \$1,440 were incorrectly recorded as property taxes in the General Fund.

Recommendation – The City should implement procedures to ensure receipts are properly recorded.

City of Conesville

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Katherine L. Rupp, CPA, Manager
Micaela A. Tintjer, CPA, Staff Auditor
Coltin R. Collins, Assistant Auditor